SKEL

Trading statement for the third quarter 2024

Performance of Operating Companies and listed shares in Q3 2024

The performance of operating companies in majority ownership of SKEL is in line with what was reported in the company's interim financial statements for Q2. SKEL classifies its operating companies on one hand as companies on the consumer market and on the other hand as infrastructure and companies on the corporate market. Following is an account of the performance of the main assets and a comparison with the companies' published projections for the first 9 months of 2024, according to the management's accounts.

Corporate market and infrastructure

Styrkás, i.e. Skeljungur, Klettur and Stólpi – Ownership 63,4%

Gallon – Ownership 100%

Million ISK	Actual 9M	Proj. 9M
Gross profit	7.609	7.502
EBITDA	2.581	2.313
EBIT	2.118	2.006

Styrkás' operations are going well and exceeded management projections for the quarter. Within the group of Styrkás are Skeljungur, Klettur and Stólpi. Operation of Gallon ehf. is in line with projections. Real estate at Fálkavellir worth ISK 143 million was sold which has an impact of ISK 105 million on the company's EBITDA for the period.

As is widely known, there are movements in the energy infrastructure market in Iceland. SKEL and a specialized investor are in negotiations regarding the sale of 100% of Gallon's share capital. Further updates will be provided as appropriate.

Consumer market

Orkan, i.e. Orkan and Löður – Ownership 100%
Heimkaup, i.e. Lyfjaval ehf., Prís, 10-11, Extra and others – Ownership 81%

Million ISK	Actual 9M	Proj. 9M
Gross profit	5.895	6.011
EBITDA	2.245	2.352
EBIT	1.055	1.295

Orkan's operations are going well and exceeded management projections for the first 9 months. Management has set the goal of becoming the leading self-service company in Iceland and an active participant in the energy transition. The sale of electricity is in line with the company's projections.

Heimkaup opened the discount store Prís, and the response from customers has exceeded expectations. There have been challenges in the operation of the stores, which have been below projections, but efficiency measures have been implemented, which will yield results in the coming months.

Merger talks between Samkaup and above-mentioned companies were terminated yesterday, October 30, as was announced to the stock exchange.

SKEL has published projections and information excluding the impact of IFRS16 on EBITDA, meaning all lease contracts are expensed among operating expenses through profit and loss, thereby reducing EBITDA, instead of the right of use being expensed under depreciation, and interest being expensed under financial items, as required by IFRS 16. For companies in the consumer market, EBITDA adjusted for IFRS16 in the first 9 months of the year is ISK 1,630 million, falling short of projections of ISK 1,776 million for the period, which is 8% below projections. For the corporate market and infrastructure, adjusted EBITDA was ISK 2.491 million compared, surpassing projections of ISK 2.234 million, which is 12% above projections.

Listed holdings and liquidity

The Company's profit from listed shareholdings amounted to 1,069 million ISK in the third quarter. The principal listed shareholdings at the end of the quarter were ISK 2,747 million in Skagi and ISK 3,644 million in Kaldalón. Other listed shareholdings totalled ISK 1,674 million at the end of the quarter. Loans amounted to ISK 4,236 million, while cash and treasury bonds amounted to ISK 3,964 million.

Stork – Foreign Investments

For the past 18 months, focused efforts have been made to identify opportunities in the European retail market. SKEL has announced its intention to increase the share of foreign assets in the company’s portfolio. Current conditions in the retail sector are highly promising, especially in light of recent market challenges.

SKEL's investment in INNO was covered in the interim financial presentation for the first half of the year. The initial months since the acquisition have shown strong performance, with several initiatives aimed at enhancing profitability already underway. The company’s fiscal year runs from October 1 to September 30, with EBITDA for the 2023/2024 period expected to range between €9.4 and €9.7 million. Projections for the 2024/2025 fiscal year indicate significantly better performance. SKEL’s indirect stake in INNO represents 50% ownership.

SKEL’s investment in INNO was made through Stork ehf., a wholly owned subsidiary of SKEL. Stork's role is to manage SKEL's foreign assets with clearly defined objectives and governance. SKEL plans to open Stork ehf. to external investment, thereby strengthening the company, achieving asset diversification, and capitalizing on identified opportunities. SKEL has successfully collaborated with other investors on strategic objectives, as demonstrated in transformations of Styrkás, Kaldalón, and Skagi. Strengthening Stork through additional robust shareholders is part of SKEL's approach to strategic entry into foreign markets.

Real Estate

The purchase of the remaining 50 apartments at Stefnisvogur is expected to be completed in the fourth quarter. The property at Litlatún was sold in October for ISK 460 million, with the full payment received. The property had been recorded at ISK 370 million.

ESA Investigation

The EFTA Surveillance Authority (ESA) conducted an investigation at SKEL in October concerning the operations of Lyfjaval ehf., a company owned by Heimkaup ehf., which is 81% owned by SKEL and associated companies, as announced on the stock exchange on October 14.

ESA's decision No. 91392 concerns alleged anti-competitive agreements and/or concerted practices involving Lyfjaval and its competitors. Specifically, that competitors restricted the direct competition that existed among their pharmacies. ESA's position is that pharmacies in Iceland can be categorized into traditional walk-in pharmacies and drive-through pharmacies. This market segmentation could potentially have been influenced by the following actions (directly quoted):

a. "an asset swap agreement of 26 April 2022, between Lyf og heilsa and Lyfjaval related to certain of the parties' walk-in pharmacies operated and subsequently closed in Mjóddin and Glæsibær;
b. coordination on the realization of Lyfjaval/SKEL's new drive-through pharmacy strategy; and
c. a restriction on Lyf og heilsa's ability to open drive-through pharmacies and a restriction on Lyfjaval's ability to open traditional walk-in pharmacies."

In response to item (a), SKEL considered the matter resolved with the decision of the Competition Appeals Committee No. 1/2023, issued on 9 August 2023, along with an announcement on the Competition Authority's website. Regarding item (b), SKEL has publicly and in company earnings meetings explained the philosophy behind Lyfjaval's operations, particularly with reference to regulation No. 1340/2022 on pharmaceutical sales licenses and pharmacies, effective as of 15 November 2022. For item (c), SKEL has not exerted any influence to limit third parties' ability to open drive-through pharmacies or restricted Lyfjaval's ability to open traditional walk-in pharmacies. Following the transaction referenced in Competition Appeals Committee decision No. 1/2023, the company has opened three pharmacies, including one in Suðurfell, located 1.2 km from Mjódd.

As previously noted, SKEL estimates Lyfjaval's market share in the pharmaceutical sector to be around 10%. Lyfjaval's direct imports have been minimal, primarily covering the following product categories: (i) COVID tests, (ii) glucose test strips for diabetics, and (iii) hearing aid batteries. Lyfjaval has not engaged in export activities.

SKEL and Lyfjaval fully cooperated with ESA staff during the investigation and provided all requested documents. SKEL has also held briefings with its main lenders and subsidiaries to clarify ESA's investigation. SKEL has no reason to believe that any competition laws have been violated in Lyfjaval's operations. The case is now entirely in ESA's hands, and SKEL will continue to provide updates as developments arise.

SKEL

Financial calendar for SKEL fjárfestingafélag hf. for the year 2024:

2H annual report: 6 February 2025

Annual General Meeting (AGM) 2025: 6 March 2025

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Disclaimer:

This press release contains forward-looking statements that are subject to uncertainties and may result in actual results differing from those projected. SKEL is not obligated to update these forecasts regarding the company's prospects to reflect events and circumstances occurring after the release of this press statement. It is the investor's responsibility not to place undue reliance on the forward-looking statements made in this press release, as they are valid only at the time of issuance.